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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000947

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DEPT OF ENERGY FOR FE - SWIFT AND OS - WILLIAMSON

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TAGS: [EPET](#) [ENRG](#) [PREL](#) [AJ](#) [KZ](#) [IR](#)

SUBJECT: BP JUNE UPDATE ON EAST-WEST ENERGY CORRIDOR

Classified By: Charge d, Affaires Jason P. Hyland, reasons 1.4 (b), (d) and (e).

11. (C) SUMMARY. In his regular brief for Charge and British Ambassador, AIOC President David Woodward noted rising production in the ACG field and the first tanker lifting of BTC-delivered oil from Ceyhan. The gala ceremonies officially opening BTC in Ceyhan will take place July 12-13 and the Georgian, Azerbaijani and Kazakhstani Presidents are confirmed attendees. BP was unable to reach an agreement with Azerbaijan to provide additional volumes of ACG associated gas this winter, but Woodward believes Azerbaijan will be able to make up the gap from other sources. Woodward noted that SOCAR is becoming more assertive and difficult to deal with, but also that agreement has been reached to house the BP-offered macroeconomic modeling mechanism in the State Oil Fund to assist with revenue management. In Woodward's view the recently signed Inter-Governmental Agreement (IGA) for trans-Caspian oil from Kazakhstan to Azerbaijan is basically fine but he feels the start date for the project is still some time in the future. Woodward also expressed concern about news stories that Iran will soon attempt to exploit the disputed Alov field in the south Caspian. END SUMMARY.

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FIRST LIFTING AT CEYHAN, RISING PRODUCTION AT ACG  
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12. (C) AIOC President David Woodward began his June 22 briefing for Charge and UK Ambassador Bristow by noting the June 4 first lifting of BTC-delivered oil from Ceyhan. The second lifting was taking place, said Woodward, simultaneously with this briefing. The official celebrations of the opening of the pipeline are planned for July 12-13, said Woodward, beginning with a gala dinner at the Ciragan Palace in Istanbul on July 12. Attendees will then travel by air to Adana and coach onward to Ceyhan the following day, with events planned from 1300-1500 at the terminal. BP is inviting project partners and financiers, but the vast majority of invitations are being issued by the Government of Turkey, said Woodward. So far, Presidents Aliyev, Saakashvili and Nazarbayev are confirmed as attending.

13. (C) Production at the Azeri-Chirag-Gunashli (ACG) oil field, which feeds the BTC pipeline, has continued to

increase, said Woodward, having passed half a million barrels per day just recently and well on course to target production of one million barrels per day. BP installed a new water-injection platform in the field recently, said Woodward. This means BP has had less interest in recovering the natural gas associated with the ACG oil and reinjecting that gas into the field to create pressure and bring out more oil. The associated gas not used for this purpose is piped to shore for Azerbaijani domestic use. BP currently turns over 1.4 bcma of this associated gas to Azerbaijan - the GOAJ has asked this to be raised to 3.0 bcma, said Woodward, but has been deaf to the argument that BP deserves some compensation for the drop in oil production that would result. A deal was not reached, said Woodward, therefore the figure will stay at 1.4 bcma. The GOAJ went ahead and planned for 3.0 bcma anyway and became angry with BP when it became clear that the additional 1.6 bcm would not be available. Woodward noted, however, that there may be more volumes coming from Shah Deniz Phase I than expected, and since Turkey and BOTAS will likely not be ready to accept Shah Deniz gas before the end of the year, Azerbaijan should be able to cover the 1.6 bcm "gap" this winter.

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SOCAR GROWS ASSERTIVE, MACROECONOMIC MODEL MOVES FORWARD  
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14. (C) Woodward returned to a frequent theme and noted that SOCAR is becoming increasingly more assertive and difficult to deal with, especially in terms of asserting control over secondary enterprises such as property leasing, site security and similar areas (what Ambassador Bristow called "peripheral privatization"). For example, SOCAR has created a 3,000-man security force which SOCAR executives assert is for "pipeline

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protection." The Presidential Security Service, with whom BP already has an excellent working relationship, already exercises this function. General Akhundov, commander of that force, has quietly advised Woodward to ignore SOCAR on the issue and if problems persist, to go to President Aliyev. Woodward recalled some years ago when then-Minister of Energy Mecid Kerimov was trying to interfere in BP operations, Woodward complained to then-President Heydar Aliyev, who told Kerimov to back off. However, Woodward considers going to the President as a step to take only in extremis, because if BP does so and receives no help, it has no further options. In response to a question, Woodward said it is difficult to state whether SOCAR is harder to deal with than BP's partners in other countries. Woodward sees it as a situation where one individual at the head of SOCAR and his circle are seeking wealth.

15. (C) On the issue of BP's offer to assist Azerbaijan on macroeconomic modeling, Woodward said that the Ministry of Finance, the Ministry of Economic Development and the State Oil Fund have all agreed that the macroeconomic model will be housed in the State Oil Fund. BP is also trying to get the National Bank of Azerbaijan involved and is planning a visit by Oxford Economic Modeling (the contractor) for the end of June. Woodward noted dryly that it is still an open question whether the GOAJ will actually pay attention to the macroeconomic model once it is in place.

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TRANS-CASPIAN IGA LOOKS OKAY...  
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16. (C) When asked about the Azerbaijan-Kazakhstan trans-Caspian oil project involving the Kashagan field, Woodward said that, from what he has seen, the IGA recently signed in Almaty "looks okay." Woodward cautioned that the IGA is only a "first step" as two Host Government Agreements (HGAs) still need to be negotiated so it will be a long time before the project gets started.

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...BUT ALOV DISPUTE MAY RESURFACE  
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¶7. (C) Finally, Woodward noted that he is reading more in the open press about the deep-water rig being built on Iran's Caspian coast. This rig, built with Chinese support, is expected to sail out and work the disputed Alov field. Iranian gunboats and planes chased an unarmed BP-chartered Azerbaijani vessel from the Alov field area in late July ¶2001. The rig, according to Woodward, took longer to build than expected and ended up more expensive, but will be ready to sail out in October or November. President Aliyev is aware of this, according to Woodward. Whether the Iranians will actually launch the rig is unknown.  
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